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Attached is the analysis, which you requested in your memorandum of November 16, of the agreements concluded between the USSR and countries of Eastern Europe.

The Soviet Union has concluded two types of agreements with the Eastern European countries, trade agreements and agreements for economic collaboration. On the basis of this study the following answers can be made to the specific question which you asked.

There is a general pattern which is evident in the conclusion of these agreements. It is that the USSR is establishing an economic basis for close political and economic relations with all Eastern European countries by the conclusion of short-term bilateral trade agreements. The USSR is receiving from these countries raw materials, food, and some semi-finished products such as cotton textiles in return for a variety of goods and materials. Unfortunately, we do not possess sufficient information to make any conclusions regarding the terms of trade or the rate of actual deliveries.

By means of the agreements for economic collaboration the USSR is apparently endeavoring to obtain a predominant position in various sectors of the economies of the ex-enemy states by the formation of joint holding companies stipulated in the agreements. Soviet investment in these companies generally consists of capital goods and equipment claimed by the Soviet Union as reparations and war booty, but donated as its share of fifty percent of the stock of the joint companies.

Because of the paucity of statistical information concerning the trade agreements, prices and deliveries, it is difficult to determine whether or not the trade agreements are in fact extortionate. The reparations, of course, give the USSR a tremendous advantage and are proving to be a heavy strain on the economies of those countries obligated to pay reparations.

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Compared with pre-war trade between the USSR and the countries of Eastern Europe, the trade agreements are diverting trade into unnatural bilateral channels. For example, the USSR during 1934, 1936, and 1938 did not receive more than three percent of the exports or provide more than three percent of the imports of Rumania, Bulgaria, Hungary, Yugoslavia, Czechoslovakia, and Poland; however, at the present time the Soviet Union is taking more than ninety percent of the available exports of most of these countries and is furnishing practically all of the imports. Concerning the question of the natural bilateral channels it should be pointed out that Germany prior to the war was the primary market and source of imports for most of the countries of Eastern Europe. With Germany removed as a market and source of imports, a substantial change in the foreign trade of the countries of Eastern Europe is inevitable.

At the present time finance, communications, and trade in Europe is disrupted, and no normal trade pattern has been established. It is doubtful that the countries of Eastern Europe could have established trade on a basis approaching the pre-war volume with other countries of Europe even without the presence of economic and political pressure from the USSR.

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